

NDTFFR : 2014 UPDATE

ND Association of School Administrators Midwinter Conference January 27, 2015

Fay Kopp, Chief Retirement Officer – Deputy Executive Director
Shelly Schumacher, Retirement Program Manager
ND Teachers' Fund for Retirement (TFFR)
ND Retirement & Investment Office (RIO)

TFFR Board of Trustees

TFFR benefits program is managed by a 7-member board of trustees who have a fiduciary responsibility to the fund's beneficiaries. The Board consists of 5 active and retired members appointed by the Governor and 2 state officials.

- ▣ **Active School Teachers**

- Mike Gessner, Minot, President
- Kim Franz, Mandan

- ▣ **Active School Administrator**

- Rob Lech, Jamestown, Vice President

- ▣ **Retired Members**

- Mel Olson, Fargo
- Mike Burton, Fargo

- ▣ **State Officials – Ex officio members**

- Kelly Schmidt, State Treasurer
- Kirsten Baesler, State Superintendent

State Investment Board (SIB)

TFFR investment program is implemented by State Investment Board.

State Officials

- Lt. Governor
Drew Wrigley, Chairman
- State Treasurer
Kelly Schmidt
- State Insurance Comm.
Adam Hamm
- State Land Comm.
Lance Gaebe
- Workforce Safety & Insurance
Cindy Ternes

Pension Representatives

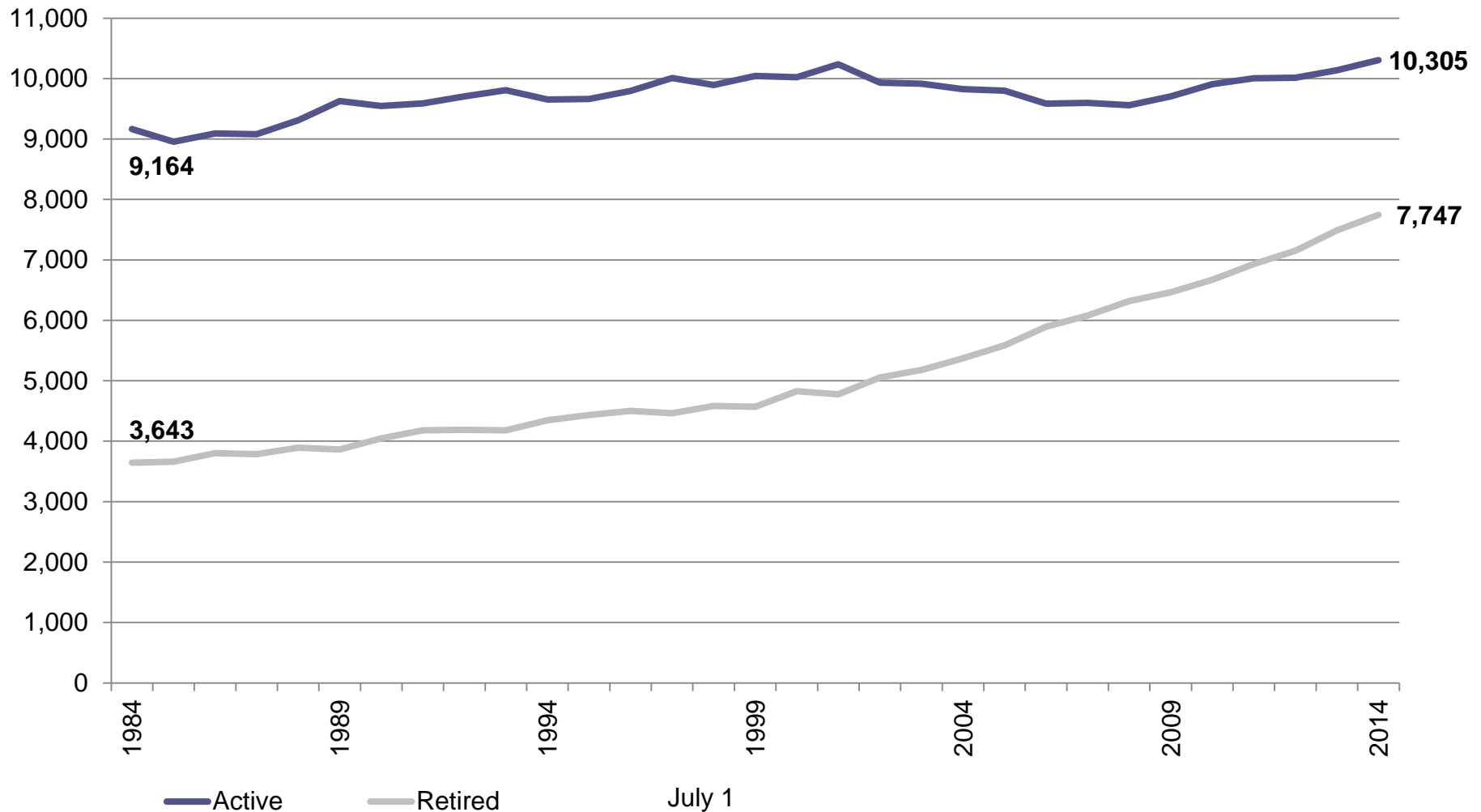
- Mike Gessner (TFFR)
- Rob Lech (TFFR)
- Mel Olson (TFFR)

- Tom Trenbeath (PERS)
- Mike Sandal (PERS)
- Yvonne Smith (PERS)

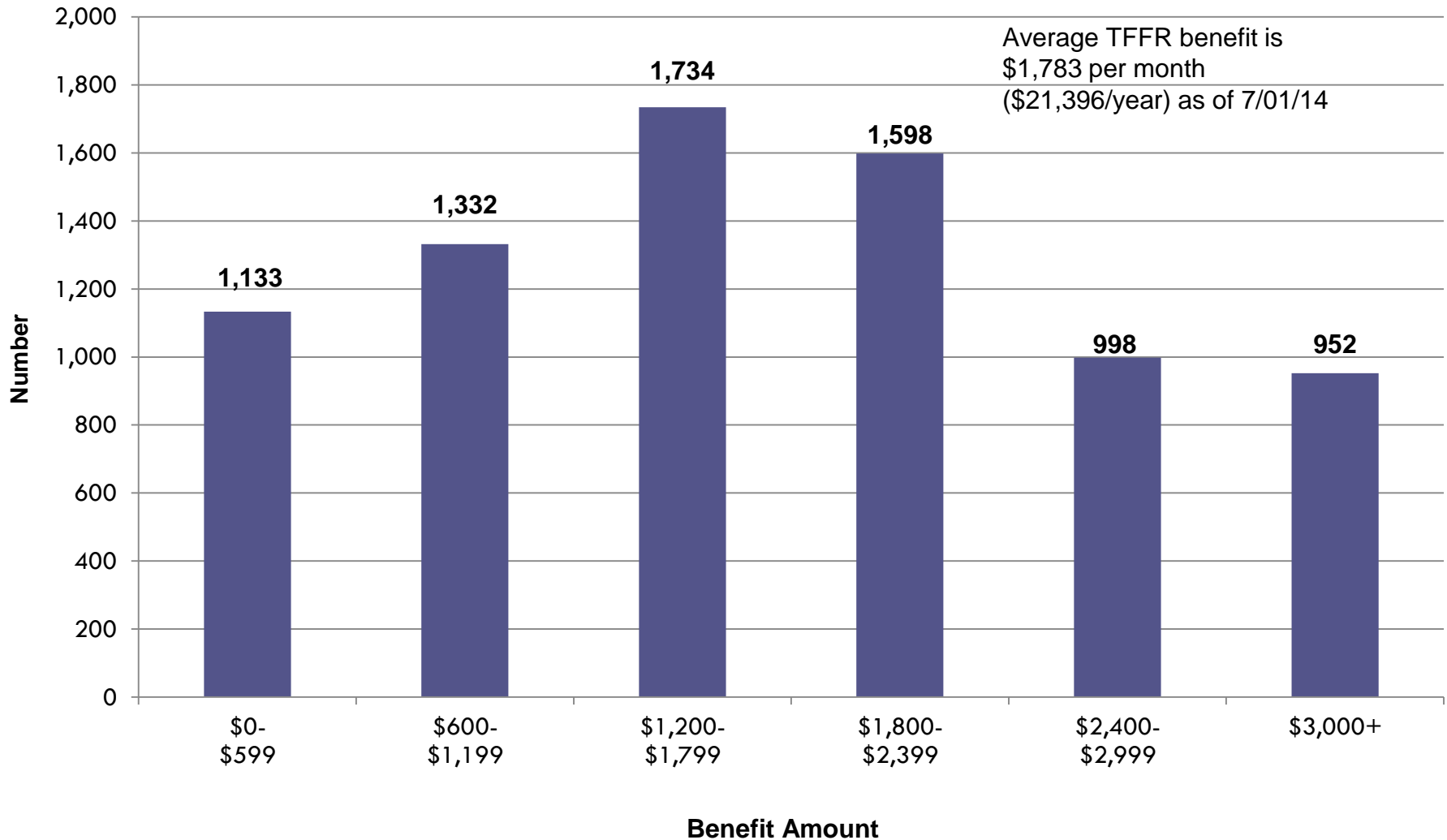
TFFR Background



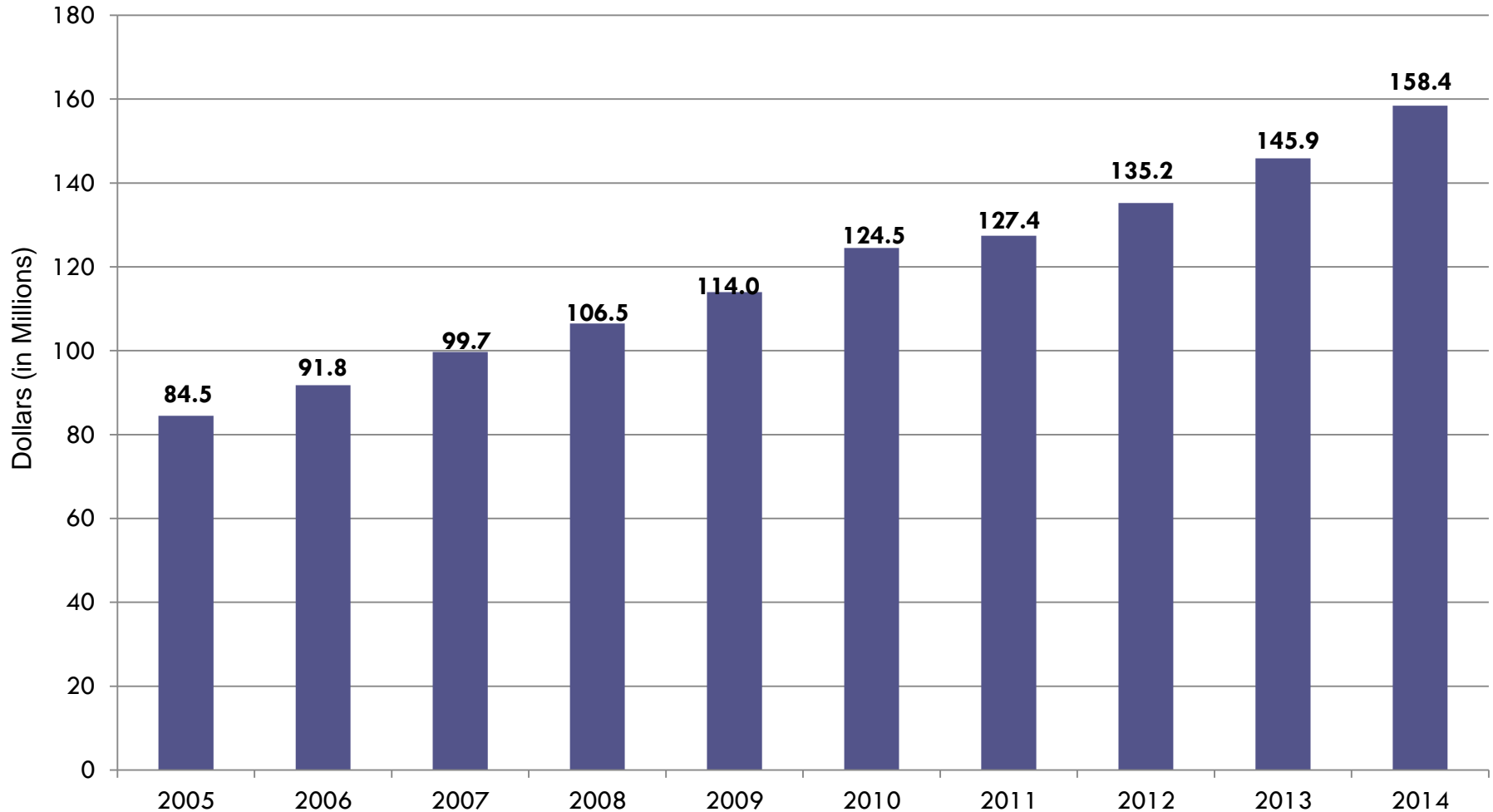
Active and Retired TFFR Members



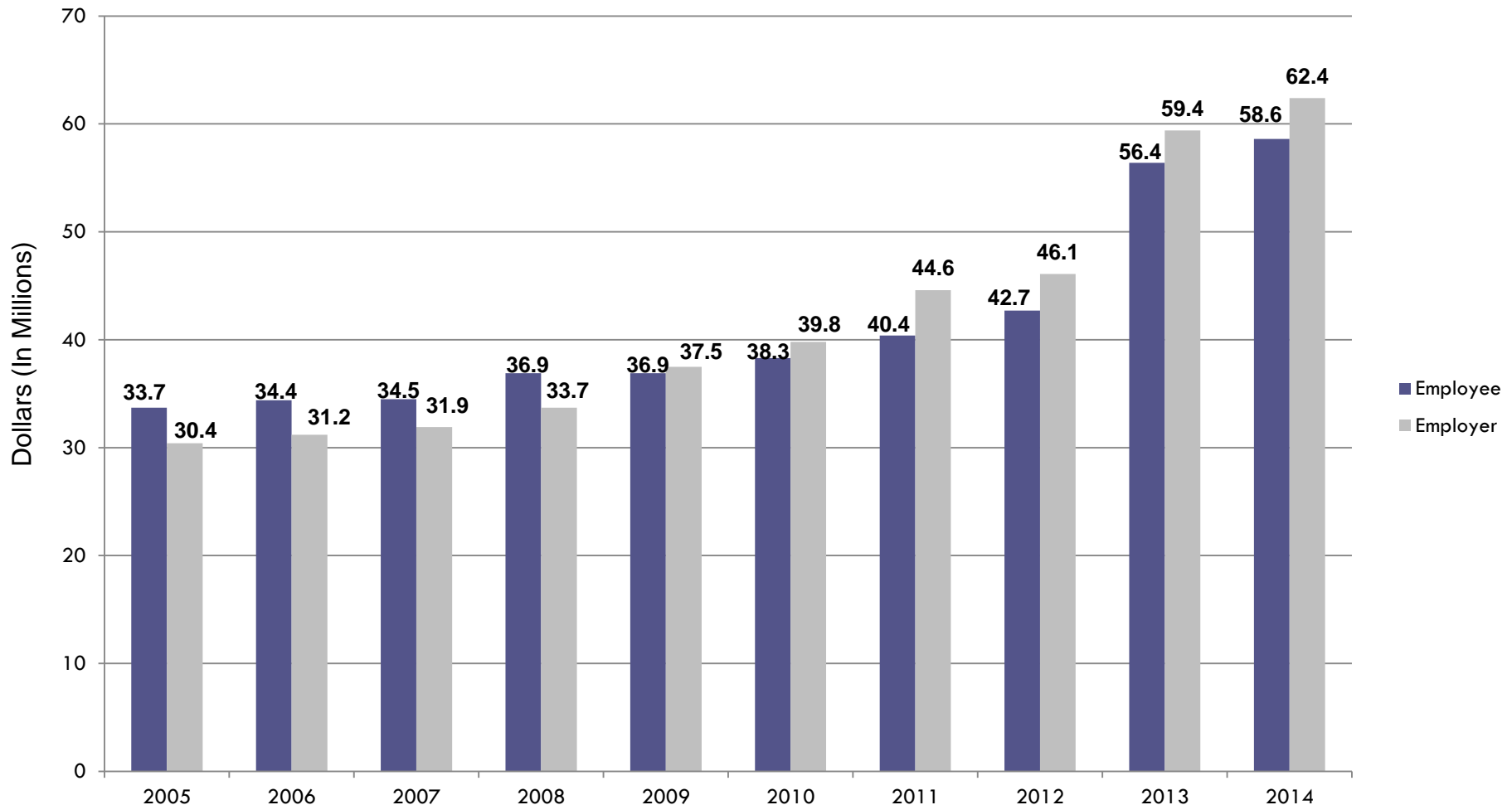
Monthly TFFR Benefits by Benefit Amount



Annual TFFR Pension Benefits Paid

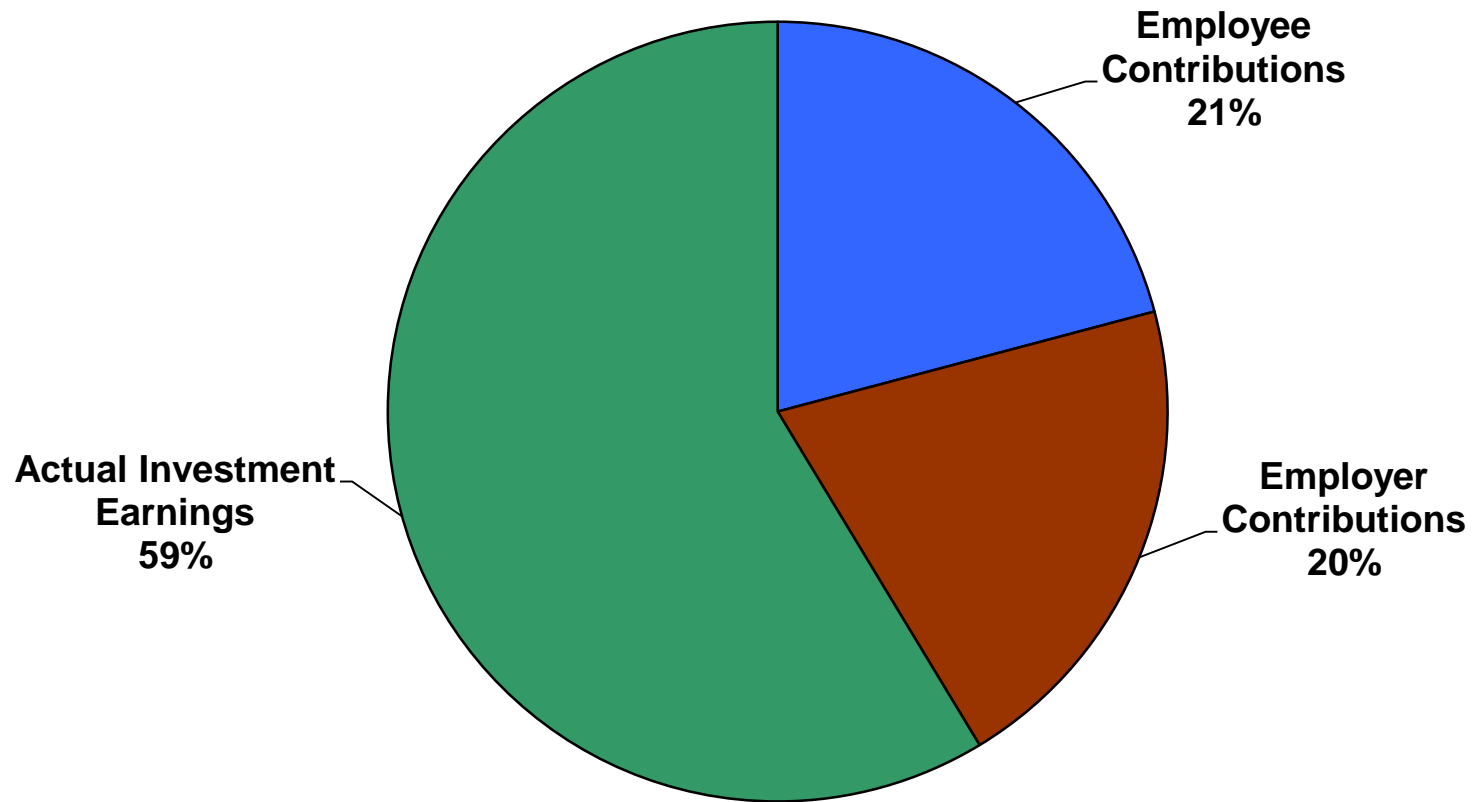


Employee/Employer Contributions Paid

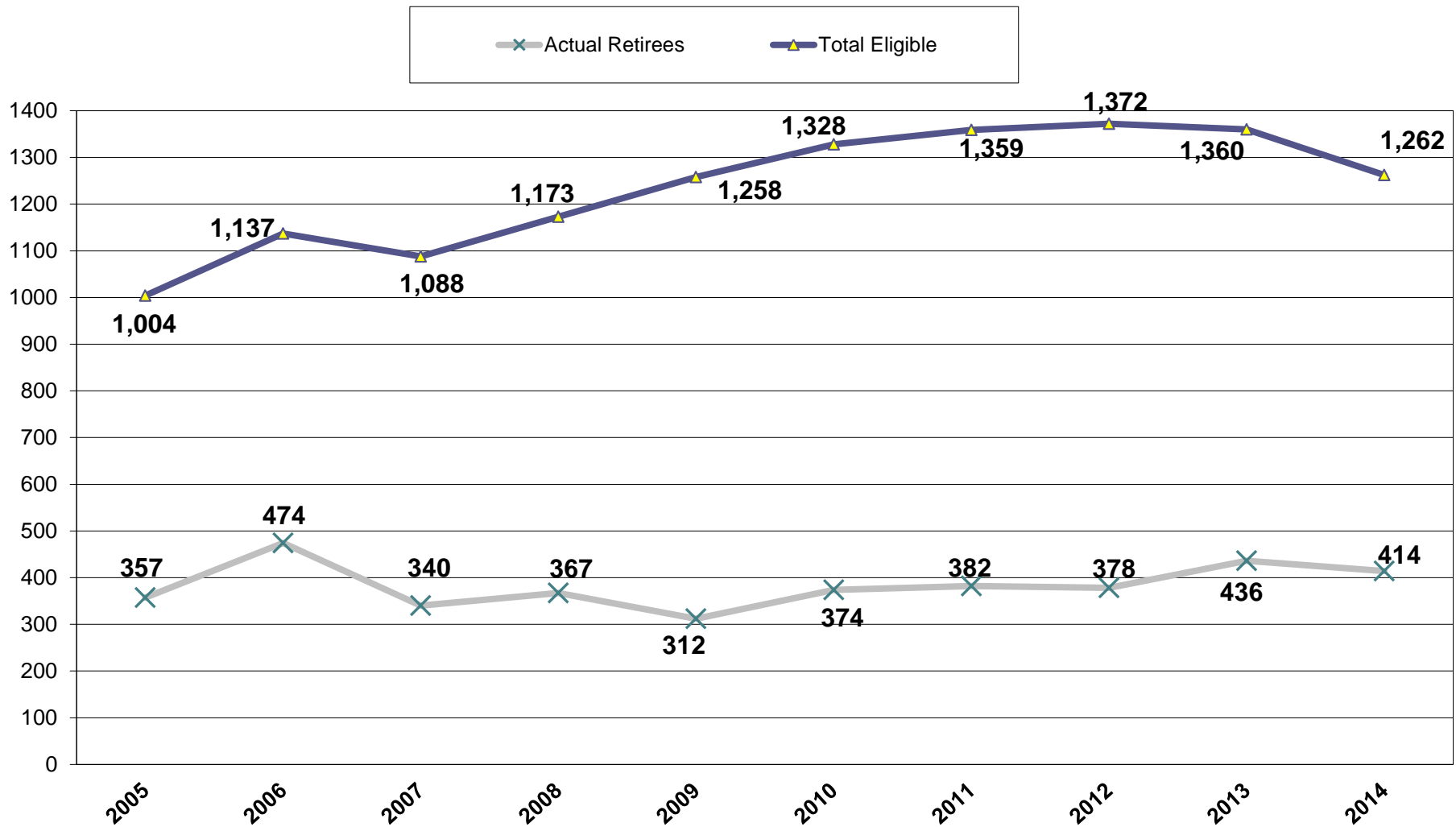


Sources of TFFR Revenue

FY 1990-2014



Actual New Retirees and Total Eligible



Summary Retirement Projections

Based on ratios of 30% and 40% of actual retirements to eligible retirements, approximately 3,400 to 3,700 active members are projected to retire in the next 10 years which averages about 370 per year.

	Members	# Retire		Avg/Yr	
		30%	40%	30%	40%
Teachers and Special Teachers	9,980	3,085	3,383	309	338
Superintendents	134	89	95	9	10
Other Administrators	516	211	233	21	23
Total Active Members	10,630	3,385	3,711	339	371

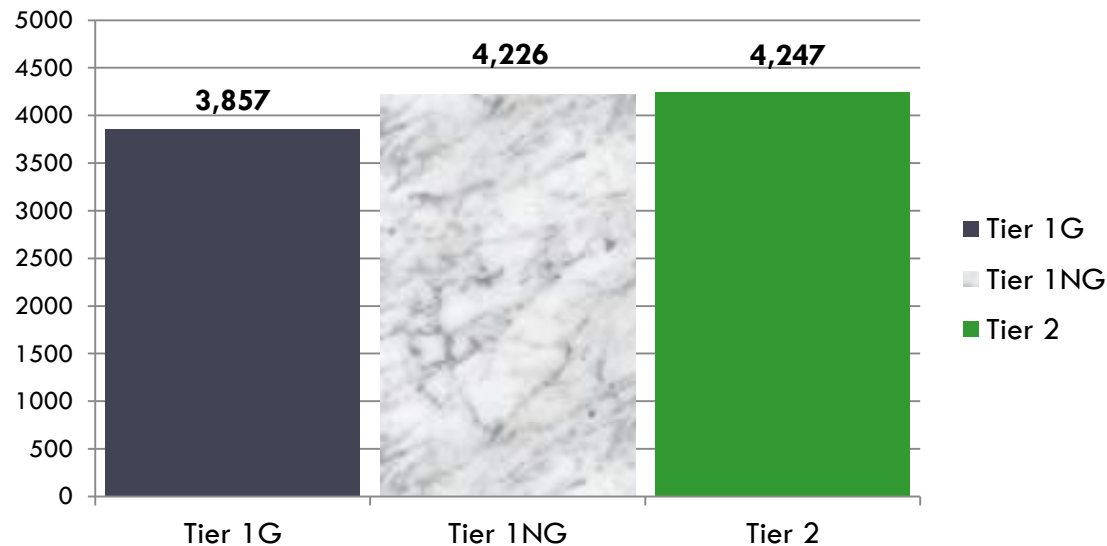
Note: All retirement projections are estimates only, and based on January 2015 membership data

TFFR Plan Benefits



TFFR Membership Tiers

- **Tier 1- Members who have service credit prior to 7/1/08**
 - ▣ Grandfathered – Members who on 6/30/13 were within 10 years of retirement eligibility (age 55+ or Rule of 65+)
 - ▣ Non-grandfathered – Members who on 6/30/13 were more than 10 years away from retirement eligibility (less than Rule of 65).
- **Tier 2 – Members employed on or after 7/1/08**



2015

Summary of TFFR Pension Benefits for Membership Tiers

	Tier 1 Grandfathered	Tier 1 Non-Grandfathered	Tier 2 All
Vesting Period	3 years	3 years	5 years
Unreduced Retirement Eligibility			
Minimum Age	No	60	60
AND Rule	Rule of 85	Rule of 90	Rule of 90
OR Normal Retirement Age	65	65	65
Reduced Retirement Eligibility			
Minimum Age	55	55	55
Reduction Factor	6%	8%	8%
Retirement Formula Multiplier	2%	2%	2%
x Final average salary (high salaries of career)	3 year FAS	3 year FAS	5 year FAS
x Service Credit	Total Years	Total Years	Total Years
Disability Retirement	Yes	Yes	Yes
Retirement formula multiplier (2%) X FAS X total years			
Death/Survivor Benefits	Yes	Yes	Yes
Refund of account value or Life Annuity to survivor based on member's vesting status.			

Contribution Rates

RATES %	Employer	Member	Total	Increase
1997 – 2008	7.75%	7.75%	15.5%	--
7/1/08	8.25%	7.75%	16.0%	+0.5%
7/1/10	8.75%	7.75%	16.5%	+0.5%
7/1/12	10.75%	9.75%	20.5%	+4.0%
7/1/14	12.75%	11.75%	24.5%	+4.0%

Note: Recent legislation increased contribution rates to improve TFFR funding. Increased rates will be in effect until TFFR reaches 100% funded ratio, then rates will be reduced to 7.75% each.

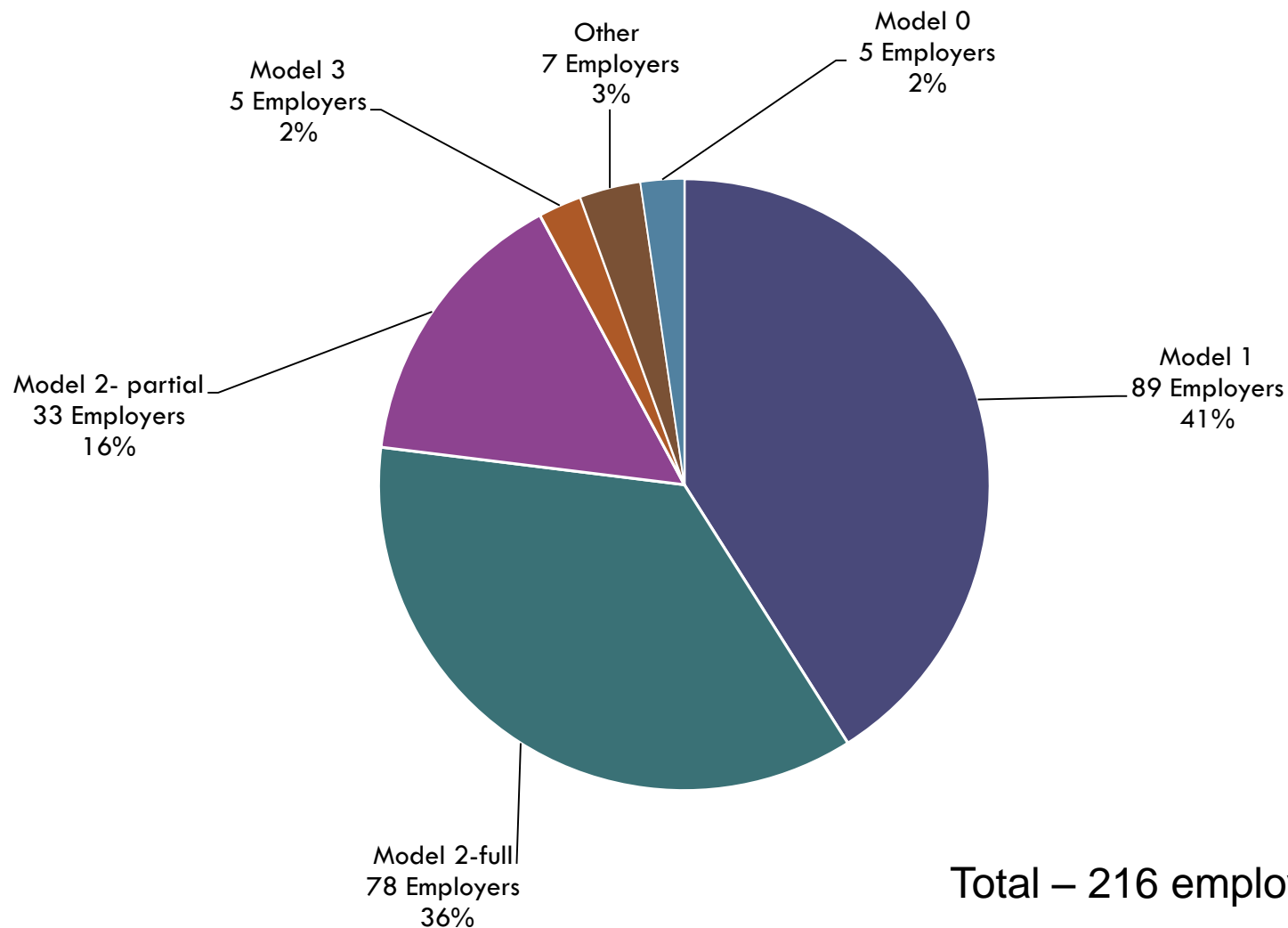


TFFR Employer Payment Plan (EPP) Models

Payment of member contributions on a tax deferred basis can be made by the employer through a: (1) salary reduction or (2) salary supplement.

- **No Model:** Member/employee contribution is paid by employee and remitted by employer as taxed dollars.
- **Model 1:** Member/employee contribution is paid by employee through a salary reduction and remitted by employer as tax deferred dollars.
- **Model 2 All:** Member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars.
- **Model 2 Partial % and Model 3 Partial \$:** A portion of the member/employee contribution is paid by employer as a salary supplement and remitted to TFFR as tax deferred dollars. The remaining employee contribution is paid by employee and remitted by employer as tax deferred dollars. Model 3 \$ option is no longer available.
- **Other:** Includes state agencies, and closed groups with special provisions.

TFFR Employer Models 2014-15



Total – 216 employers

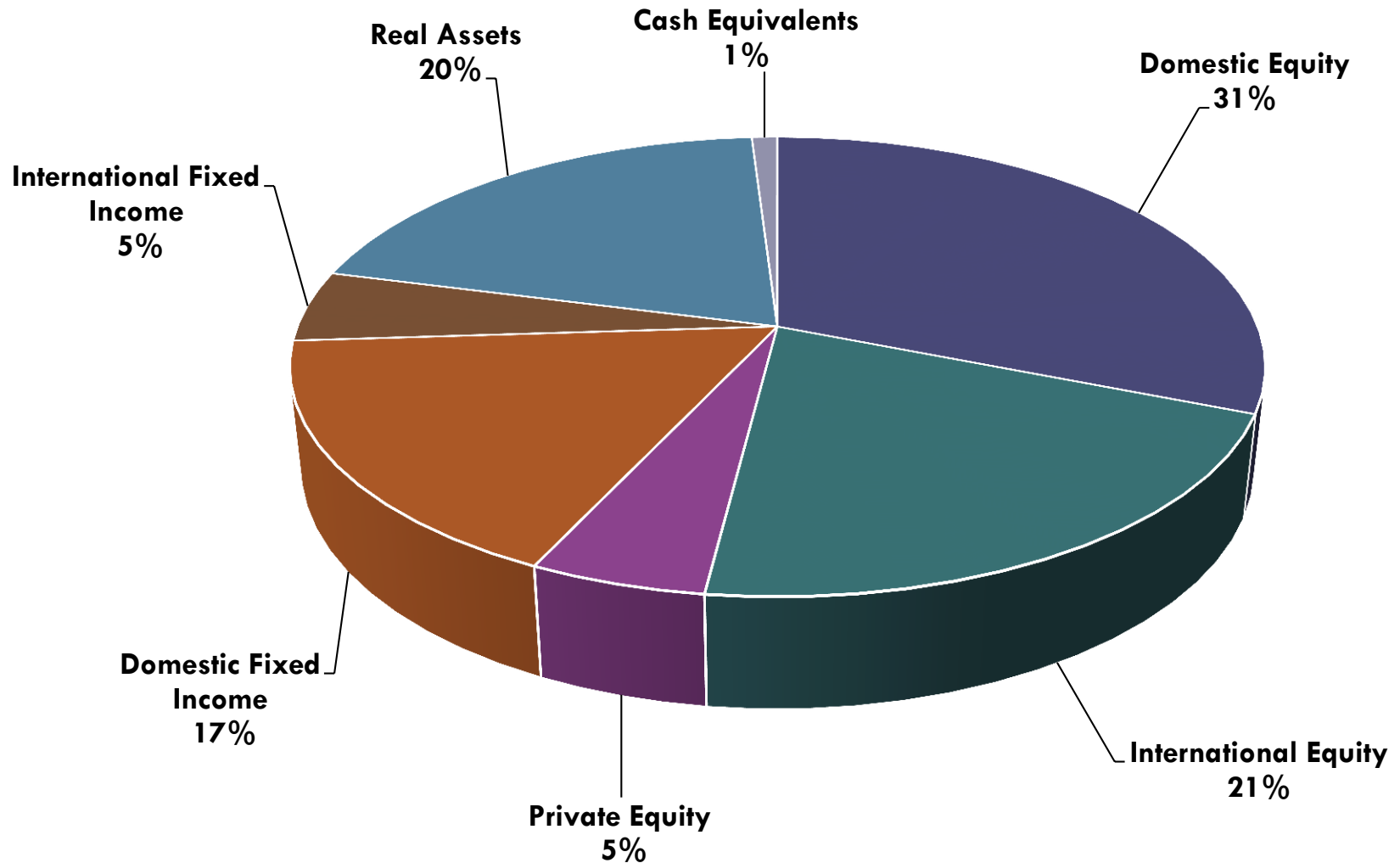
TFFR Investments



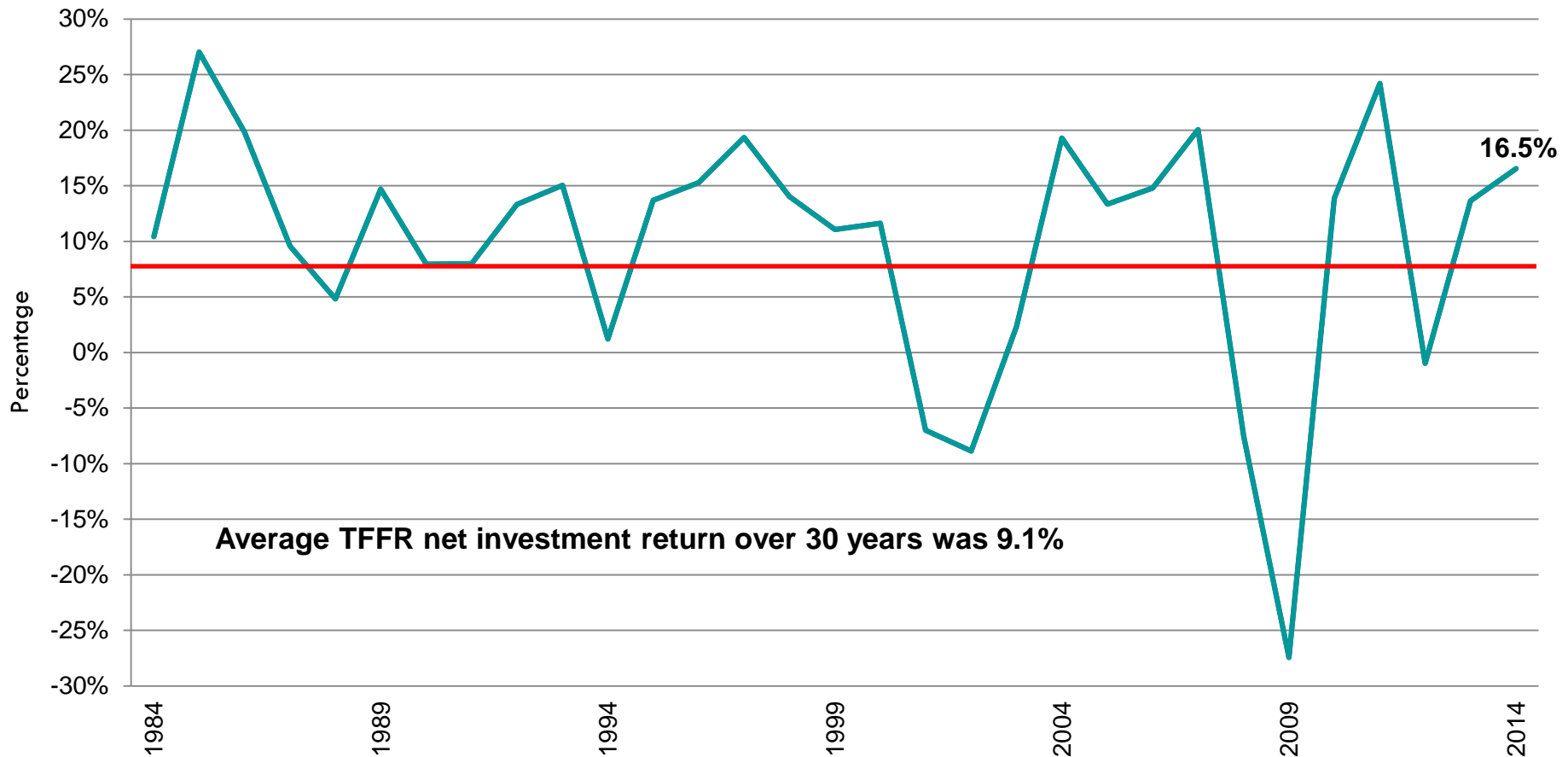
Asset Liability Study

- Asset allocation and investment policy guidelines are determined by TFFR Board, with assistance from SIB Chief Investment Officer and investment consultants.
- Asset Liability study is conducted every 5 years to consider appropriate asset mix for funding TFFR pension liabilities. Most recent Study was completed in Fall 2011. Next one scheduled 2015-16.
- TFFR's investment portfolio is divided into three basic categories, defined by their reactions to specific capital market factors:
 - ▣ Equity (growth and capital appreciation)
 - ▣ Fixed income (income, low risk, flight to quality, deflation)
 - ▣ Real assets (inflation, income, diversification)
- TFFR's long term investment return assumption is 8%.

TFFR Asset Allocation

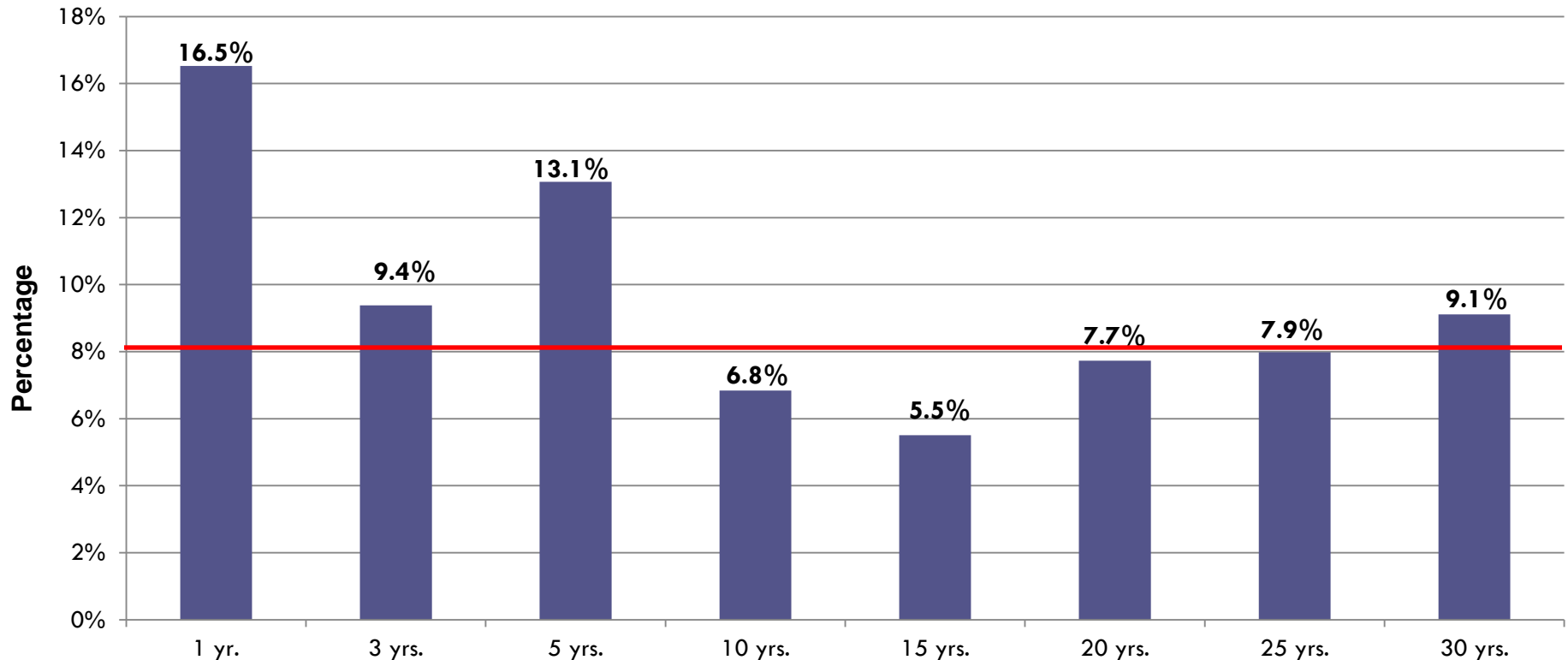


TFFR Net Investment Performance – Annual Fiscal Years Ended June 30, 1984-2014



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

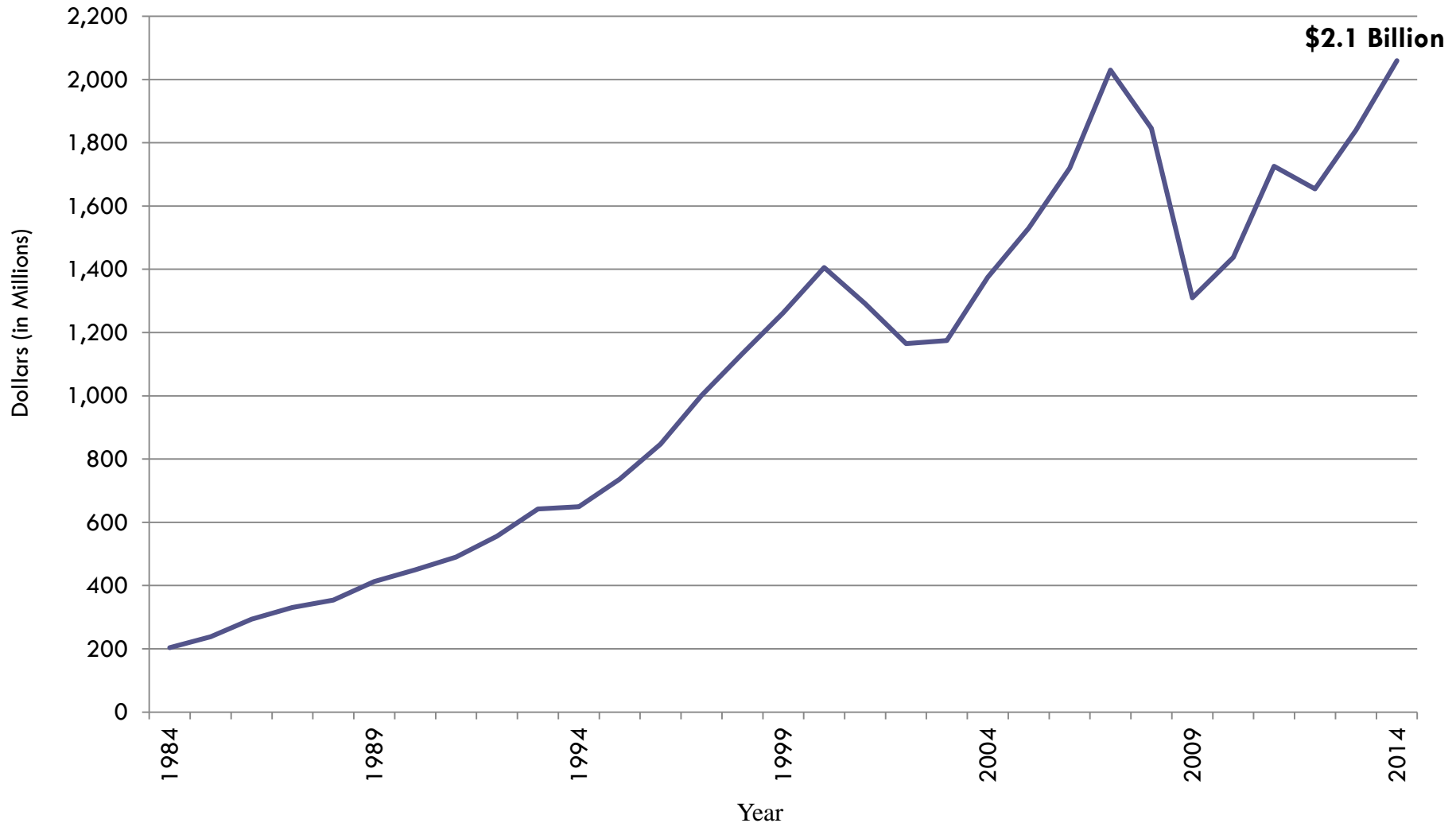
TFFR Net Investment Performance – Average Fiscal Year Ended June 30, 2014



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

Market Value of TFFR Assets

Fiscal Years Ended June 30, 1984 - 2014



TFFR Funding



Retirement Funding Equation

$$C + I = B + E$$

- Contributions + Investments = Benefits + Expenses
- Not just for today, but for the long term.



2014 Valuation Report Summary

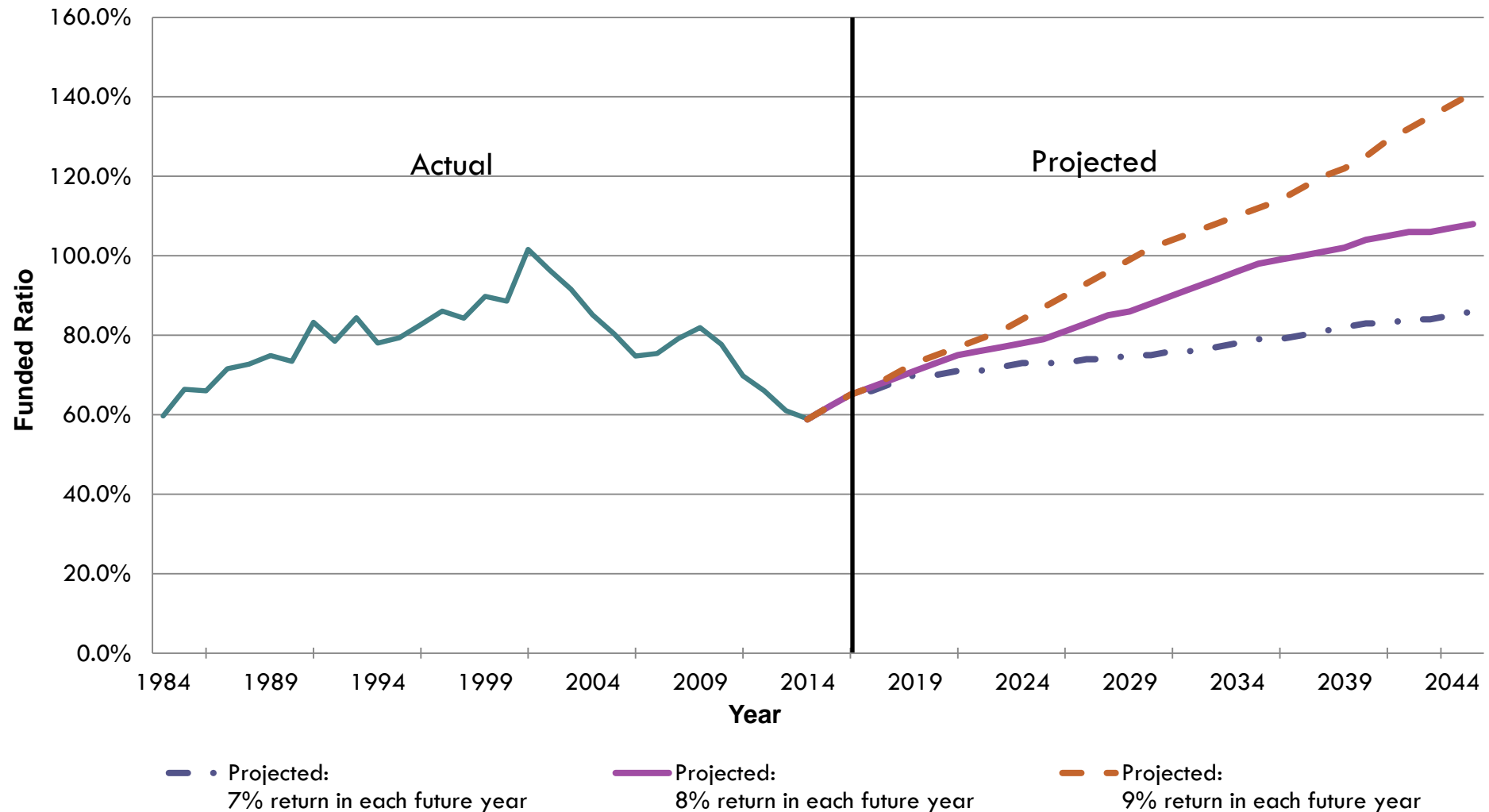
Actuarial Accrued Liability (AAL)	\$3.14 billion
Actuarial Value of Assets (AVA)	<u>- 1.94 billion</u>
Unfunded AAL (UAAL)	\$1.20 billion
AVA Funded Ratio	62%
Market Value of Assets (MVA)	\$2.09 billion
MVA Funded Ratio	67%

TFFR Funding Improvement Expected

- **With the approved 2011 legislative changes, funding recovery is expected to occur gradually over time.**
 - ▣ The significant investment losses experienced in 2008-09 have now been smoothed into actuarial calculations.
 - ▣ Final phase of contribution increases began flowing into the plan effective 7/1/14.
- **Time is needed for the changes made to show positive funding results. It will be a long, slow process.**
 - ▣ Actuarial projections show it will likely take 20-30 years before TFFR reaches 80% - 100% funding levels, if the plan meets all actuarial assumptions, including the 8% investment return assumption.
 - ▣ If investment returns are greater than 8% over the long term and if TFFR reaches 100% funded level, employee and employer contribution rates will be reduced to 7.75% sooner than expected.
 - ▣ If investment returns are less than 8% over the long term, higher contribution rates will remain in effect, and funding progress will take longer.
 - ▣ While 2014 fiscal year was a very good year in the financial markets, the ongoing global market volatility make a long-term focus particularly important for pension plans like TFFR.

TFFR Funded Ratio (AVA)

Actual and Projected (based on 2014 valuation)



New GASB Accounting Standards



New GASB Standards

- Governmental Accounting Standards Board (GASB) recently approved two new standards that will change the accounting and financial reporting of public employee pensions by state and local governments.
- **Statement #67** provides for accounting with respect to governmental pension plans (NDTFFR).
 - Effective for plan year beginning 7/1/13 – 6/30/14
(June 30, 2014 financial statements)
- **Statement #68** establishes new accounting and financial reporting requirements for state and local governments (participating employers, school districts).
 - Effective for plan year beginning 7/1/14 – 6/30/15
(June 30, 2015 financial statements)

GASB Objectives

- **Financial Reporting Focus**

- GASB establishes accounting and financial reporting, not funding policies
- Focus is on pension obligation, changes in obligation, and attribution of expense

- **Employer-Employee Exchange**

- Employer incurs an obligation to its employees for pension benefits
- Transaction is in context of a career-long relationship

New GASB Standards

- Funding/contribution reporting requirements will be different than accounting/financial reporting requirements.
- Net pension liability (NPL) will be placed in footnotes of TFFR financial statements AND the employer's (school district) balance sheet. This will add a large and unstable element to an employer's net financial position.
- Each employer (school district) must disclose in their financial statements, their proportionate share of:
 - Net Pension Liability (NPL) - total pension liability minus market value of assets, calculated using a specific formula
 - Pension Expense – change in NPL each year with certain deferrals
 - Deferred outflows and deferred inflows of resources related to pensions – difference between expected and actual demographic and investment experience
- Each employer must also include other required supplementary information and expanded note disclosures, including plan assumptions and methods.

New GASB Standards

- TFFR, PERS, and the State Auditor's Office have been working on a joint implementation and training plan with plan actuaries, auditors, and staff. Earlier this year we formed a working group of TFFR and PERS participating employers and auditors to assist in this effort, and received valuable feedback from them.
- We hosted a GASB 68 Employer and Auditor Training Session on December 11, 2014 in Bismarck for representatives of TFFR and PERS participating employers, auditors, and other interested stakeholders. Information was presented describing the new standards, timing of implementation, actuarial/financial information to be provided by the plans, sample template note disclosure, audit issues, and Q & A forum with TFFR, PERS, and State Auditor's Office representatives. The training materials and a video of the training session are available on the TFFR website.
- Other GASB resources and information for TFFR employers, including Frequently Asked Questions, are also available on the TFFR website .
<http://www.nd.gov/rio/TFFR/Employers/default.htm>

Net Pension Liability – Employer Proportionate Share

- Actuary calculated the Net Pension Liability (NPL) for TFFR which is \$1.05 billion as of 6/30/14.
- Proportionate share of NPL for each employer will be allocated based on total TFFR covered payroll for active members.
 - Total TFFR covered payroll for FY 14 was \$580 million.
- Proportionate share of covered payroll for each school district ranges from 0.000687% to 10.894306%.
 - Largest 5 school districts range from 6% to 11% (43% of total)
 - Next 8 school districts range from 1% to 3% (15% of total)
 - Majority of school districts have less than 1% (42% of total)

Employer Specific GASB Information

- TFFR's actuary has also calculated GASB 68 information needed for employer's 2015 financial statements. This information will be audited by TFFR's external auditor.
- TFFR has developed a sample template note disclosure to assist employers incorporate the GASB 68 information into their financial statements.
- TFFR plan auditors are also testing the payroll and employee census data at the employer level. Onsite audit fieldwork is underway. An audit opinion on the GASB schedules should be available in February.

New GASB Standards

- **Each employer (school district) is responsible for implementing the new pension reporting requirements in GASB 68. School districts will need to work with their accounting, financial, and audit specialists for assistance. This is a MAJOR change from previous financial reporting requirements, although there have been NO fundamental changes to plan funding requirements.**
- Note: The liability illustrated on school district financial statements is projected to decrease over future years due to the contribution and benefit changes that are now in place.
- We will all need to work together to understand and implement these new financial reporting requirements for pension plans.

2015 Legislation

2015 Legislative Proposals

- **HB 1064**, submitted by the TFFR Board. Includes technical updates relating to Internal Revenue Code compliance. The changes have no financial effect on the plan.
Status: House approved bill 90-3 on 1/19/15.
- **SB 2022** Retirement & Investment Office agency budget bill.
Status: Senate Appropriations hearing on 1/14/15.
- Other bills being monitored for potential TFFR implications include:
 - HB 1329 - Adds 2 legislators to SIB
 - HB 1339 - Provides state income tax exclusion for government pensions
 - SB 2013 - DPI Budget
 - SB 2031 - School District Foundation Aid

2015 Legislative Proposals cont.

- Other PERS related bills being monitored include:
 - HB1080 - PERS funding improvement and contribution increases
 - SB2038 - Closes PERS DB plan and requires all new state employees to participate in PERS DC plan
 - SB2039 - Creates Public Employee Retirement Stabilization Fund, and transfers funds from Foundation Aid Stabilization Fund. Contingent upon passage of SCR 4003, and approval in June 2016 primary election.
 - SCR 4003 - Amends ND Constitution. Provides for the transfer of certain funds from Foundation Aid Stabilization Fund for the purpose of making low-interest loans for school construction projects, addressing existing or anticipated unfunded benefit obligations of state retirement funds, or other education-related purposes.

TFFR Information

TFFR website: www.nd.gov/rio

- Legislation
 - Links to ND Legislative website, bill drafts, actuarial analysis, testimony
- GASB Information
 - Links to GASB implementation guides, FAQs, GASB 68 report for employers, audit opinions, etc.
- Presentations
 - Presentations made to member and employer groups
- Publications and Reports
 - Newsletters, handbook, brochures
 - Actuarial and audit reports
- Contact Information
 - Phone: 701-328-9885 or 1-800-952-2970
 - Email: fkopp@nd.gov or sschumacher@nd.gov